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July 10, 2006

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RECEIVED

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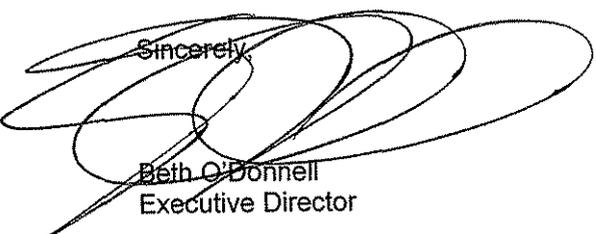
Michael L. Kurtz
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RE: Informal Conference Memo

Dear Counsel:

Enclosed for your review, please find a preliminary informal conference memo detailing the informal conference held at the Commission's offices on Wednesday, July 5, 2006 in Case No. 2005-00053. A copy of the memo will be placed in the case file seven days from the date of this letter. If you have any suggestions regarding the contents of the memo, please submit them to the Commission no later than five days from the date of this letter.

Sincerely,


Beth O'Donnell
Executive Director

Enc.

**Kentucky Public Service Commission
Intra-Agency Memorandum**

TO: Case File No. 2005-00053
East Kentucky Power Cooperative, Inc. – CPCN/Site Compatibility

FROM: David Samford, General Counsel

RE: Record of Informal Conference Held on July 5, 2006

DATE: July 7, 2006

An informal conference in the above-referenced matter was held on July 5, 2006 beginning at 10:00 AM in Conference Room #1 of the offices of the Kentucky Public Service Commission in Frankfort, Kentucky. Those in attendance at the informal conference were:

For Applicant, East Kentucky Power Corporation, Inc. ("EKPC"):

Darrin Adams	Bob Hughes	Charles Lile
Gary Davidson	Craig Johnson	Roy Palk
Randy Dials	Jim Lamb	

For Intervenor, Office of the Attorney General of Kentucky ("Attorney General"):

Betsy Blackford

For the Kentucky Public Service Commission ("PSC"):

Andrea Edwards	John Rogness	John Shupp
Daryl Newby	Elie Russell	
Beth O'Donnell	David Samford	

Commission staff briefly reviewed the procedural history of this case. The Applicant filed its application for a certificate of public convenience and necessity and a site compatibility certificate (collectively, the "Certificate") for constructing five combustion turbine generating units and a single circulating fluidized bed generating unit at the Smith Station near Trapp, Kentucky on January 31, 2005. A hearing was

held before the Commission on November 29, 2005. Although questions regarding the need for additional generation were fully addressed in the course of the hearing, EKPC had not as of yet completed the prerequisites to obtaining a Site Compatibility Certificate as set forth in KRS 278.216. The case was held in abeyance on April 18, 2006 in order to give EKPC time to secure Rural Utility Service ("RUS") approval of a National Environmental Policy Act ("NEPA") certification for the new construction, thereby also complying with KRS 278.216.

Sometime subsequent to the April 18th Order, EKPC elected to file a Site Assessment Report in an effort to comply with KRS 278.216 rather than wait for RUS approval of the NEPA plan. EKPC filed its internally-prepared Site Assessment Report with the Commission on or about May 5, 2006. On June 23, 2006, EKPC advised the Commission that unless a Certificate to construct and a Certificate of Site Compatibility were issued by July 1, 2006, it could incur increased costs associated with the construction of the additional generating units. On June 29, 2006, the Commission issued a Notice that this informal conference would take place on July 5, 2006.

Commission Staff thereafter posed several questions to EKPC's managers regarding the basis for the request for expedited processing of the May 5th Site Assessment Report and other permitting activities appurtenant to the additional generation.

With regard to the construction schedule proposed by EKPC, it was demonstrated that the target operational date for the combustion turbine generators has been delayed to April of 2008 and the target operational date for the circulating fluidized bed generator has been delayed to March of 2010. Working from these dates and due

to the complexities of constructing modern electric generation facilities, EKPC estimated that it needed to obtain a Certificate from the Commission by March 1, 2006. When this deadline passed without RUS approval of the NEPA proposal, EKPC elected to pursue a Certificate of Site Compatibility via submission of the May 5th Site Assessment Report.

Prior to and contemporaneous with the submission of the Site Assessment Report, EKPC began to solicit proposals from third-party vendors to supply critical components of the generation facilities. EKPC submitted several proposals from various such vendors in support of its request for expedited review of the Site Assessment Report. Each proposal emphasized, to varying degrees, the dynamic nature of the current market for electric generation components, increased demands for time allocated to component fabrication and the increasing costs associated with such components. The current status of the proposals selected by EKPC is summarized as follows:

Component	Date of Proposal	Date of Expiration of Proposal	Status
Condenser	Unidentified	90 Days from Date of Proposal	Uncertain
Dearator	May 1, 2006	120 Days from Date of Proposal	Valid
Boiler Feed Pumps	March 8, 2006	30 Days from Date of Proposal	Expired
Cooling Tower	May 2, 2006	90 Days from Date of Proposal	Valid
Boiler	June 21, 2006	August 31, 2006	Valid
Chimney	March 10, 2006	90 Days from Date of Proposal	Expired
Feedwater Heaters	May 1, 2006	May 31, 2006	Expired
LMS 100's	June 21, 2006	July 1, 2006	Expired

EKPC also submitted a June 23, 2006 letter from Stanley Consultants, Inc. ("Stanley") to EKPC estimating the financial impact of additional delays to the total cost of the proposed construction. Stanley estimates that if EKCP obtained the Certificates from the Commission by August 1, 2006, the additional cost impact would be \$36.1 million. Of this amount, \$16.0 million would be due to the costs of purchased power;

\$14.3 million would be due to escalation of material costs; \$4.8 million would be due to increased labor costs; and \$1.0 million would be the result of interest during construction. Stanley also estimates that if the Certificates are issued on September 1, 2006, the additional cost impact would be \$45.3 million. If the Certificates are issued on October 1, 2006, the additional cost impact would be \$54.2 million. If the Certificates are issued on November 1, 2006, the additional cost impact would be \$63.0 million. The Stanley letter further states that, because there is significant competition to obtain the production time and resources of third-party vendors, even a short delay in obtaining the Certificates could cause a significant delay in completing the project. Beyond the documents submitted along with its June 23rd letter to Beth O'Donnell, EKPC indicated it had no other documentation of the fiscal or operational impact upon the project of the failure to as of yet obtain the requisite Certificates from the Commission.

Discussion thereafter turned to what other regulatory actions were necessary with regard to the proposed construction and operation of the generating units, including the securing of additional permits. EKPC identified three additional permits that were needed before the proposed generation units could become operational: 1) a water permit to be obtained from the Environmental and Public Protection Cabinet ("EPPC") Department of Natural Resources ("DNR") Division of Water ("DOW"); 2) an air permit to be obtained from the EPPC DNR Division of Air Quality ("DOAQ"); and 3) a solid waste permit to be obtained from the EPPC DNR Division of Waste Management ("DWM"). Additionally, EKPC needed to obtain financial backing from the RUS.

With regard to the water permit, EKPC advised that its existing water permit was subject to renewal within the next six months and that it would be seeking a modification

of the existing permit to incorporate the water requirements of the proposed generation facilities. EKPC further advised that it anticipated receiving the renewal of the existing water permit, as modified, within five months from the date of seeking renewal.

With regard to the air permit, EKPC advised that in successfully securing an air permit for the Spurlock #4 generating unit very recently, it believed it had paved the way for an expedited issuance of an air permit for the proposed generating units. EKPC explained that the proposed circulating fluidized bed generation unit uses identical technology as Spurlock #4 and that by securing a permit for the Spurlock #4 unit, EKPC had become familiar enough with DOAQ requirements to efficiently secure the needed air permit. EKPC anticipated filing for the air permit as quickly as within one week from the date of the informal conference and in no event later than ninety (90) days following the date of the informal conference. Based upon the groundwork laid in the case of the Spurlock #4 air permit, EKPC believed it would secure the required air permit within approximately nine months following the filing of its application.

With regard to the solid waste permit, EKPC advised that it would file a landfill application with the DWM within approximately six months. Although it could take three to four years to finally secure the solid waste permit, EKPC advised that it could, in the interim, make use of beneficial fill processes to prepare the site and mitigate any adverse impacts to the project arising by virtue of the application review period.

Commission staff questioned whether work could proceed subsequent to Certificates being issued but prior to EKPC obtaining the other needed permits. EKPC responded by indicating that although the generating units could not become operational, or in some cases may not be able to be constructed, they could nonetheless

enter into binding contractual and financial relationships with third-parties to begin the process of securing the components necessary to commence construction as soon as possible. EKPC further advised that the ability to enter into these types of commercial relationships was critical to securing vital components in a timely and cost-efficient manner.

Commission staff then questioned whether there was any risk, in the event the PSC issued Certificates and EKPC proceeded to purchase various components of the generating units without having first obtained other necessary regulatory approvals as to the overall project, of incurring substantial additional costs in order to comply with any subsequently imposed modifications to the project or its components. EKPC indicated that it had considered that possibility and felt that there would be no material changes to the project relating to the water and solid waste permits. EKPC admitted that the air permit could involve modifications to the project, but based upon their recent experience with the Spurlock #4 generation facility – which uses identical technology – the risk was acceptable.

With regard to proceedings before the RUS, EKPC advised that it had completed the NEPA application and that a local hearing was expected to be held within the next thirty (30) to sixty (60) days. Following that, EKPC anticipated a favorable NEPA judgment from RUS within an additional one hundred eighty (180) days. Again, however, waiting until next year to obtain a favorable NEPA judgment from RUS threatened to impose significant financial and timing impacts to the project – which led EKPC to reverse course and seek to comply with KRS 278.216 by submitting a Site Assessment Report on or about May 5, 2006.

Discussion then turned to previous assessments and reviews of the Smith Station site for the proposed combustion turbine and circulating fluidized bed generating units. EKPC confirmed that an environmental assessment was filed in Kentucky Public Service Commission Case No. 2003-00297 in regard to the construction of combustion turbines #6 and #7 at the Smith Station. In addition to this, EKPC pointed out that an environmental impact study had been prepared for the site and filed with the Siting Board in Case No. 2000-00075, although in that case EKPC was not the applicant.

Finally, discussion turned to the logistics of completing the processing of EKPC's application in a timely manner. Commission staff advised that with passage of KRS 278.216 in 2002 and as amended in 2003, it is the practice of the Commission to seek the opinion of an independent consultant with specialized experience in the review of all site assessment reports. Although KRS 278.704 (relating to merchant electric generation facilities) expressly contemplates this and provides for the applicant to bear the cost of such an independent review, KRS 278.216 (relating to jurisdictional electric generation facilities) is silent on the question. Without budgeted resources to cover the costs of an independent review (estimated at \$35,000.00 to \$50,000.00), the Commission was in a difficult financial position. Moreover, Commission staff advised that the established process for securing the services of an independent consultant could be time consuming and would likely add several weeks to the processing of EKPC's application. In light of the challenges facing the Commission, the Attorney General's representative observed that EKPC could likely shorten the processing period for the application by itself retaining an independent consultant to review the Site Assessment Report. After discussing possible options, EKPC caucused with the

Attorney General to consider whether EKPC would be willing to retain and pay for an independent review.

When the informal conference reconvened, EKPC advised that it would retain and pay for an independent review of its Site Assessment Report. EKPC inquired as to what steps should be taken to assure the Commission of the independence of the selected consultant. Commission staff advised that while EKPC could select any consultant of its choosing, those consultants retained by the Siting Board through a competitive process were presumed to be independent. Moreover, any review by a consultant would be regarded by the Commission as a supplementation of the record by EKPC. Commission staff further advised that EKPC may be able to obtain an independent review most expeditiously by seeking out the services of the consultant who had previously reviewed the site assessment report in Case No. 2003-00297 – who may be able to simply update his original review. EKPC thereafter inquired whether the consultant's report should be in any special format. Commission staff advised that so long as the elements of KRS 278.216 and KRS 278.708 (as incorporated by reference in KRS 278.216) were included in the report, no special formatting was required. EKPC finally inquired whether there were any additional materials that should be submitted or issues that would need to be resolved. Commission staff advised that, other than compliance with KRS 278.216's Site Compatibility Certificate requirement, the case record appeared to have sufficient information to permit the Commission to render a decision.

There being no further items for discussion, the informal conference then adjourned.

Case No. 2005-00053
July 5, 2006 Informal Conference with
East Kentucky Power Cooperative, Inc.

Name	Representing
Elie Russell	PSC
Roy Falk	EKPC
Shawn Lih	EKPC
John	PSC
Randy Deane	EKPC
Craig Johnson	EKPC
Bob Hughes	EKPC
Gary Davidson	EKPC
Jim Lamb	EKPC
Darrin Adams	EKPC
Betsy Blackford	AG
Andrea Edwards	PSC
Daryl Newberry	PSC - FA
John Sharp	PSC - ENGR.
Beth O'Donnell	PSC

Name	Representing
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David Sanford	PSC
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